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Hello

Welcome to the first edition of Euristix Insight, our new publication designed to provide insight, information and assistance in the changing world of credit and portfolio management. Along with providing a lead article in each edition, there will be regular features on how to attain industry best practice and thought-provoking questions to prompt you to identify value generation opportunities in your risk management. We welcome any feedback you may have and please contact us with any questions.

Kind regards,

Chris Kemp



In this edition...

Analytical Valuations are proving to be a critical driver for success in debt sale and purchase. Our lead article discusses the developments in this area and the benefits available to adopters of these techniques.

Questions Corner - In this edition we focus on the key questions that any portfolio or collections manager should be asking about their business.

Achieving Best Practice - Is stress-testing simply a necessary evil, or can it drive real value in your business?

Analytical Valuations Drive Debt Purchase Success



As the debt market matures and the economic cycle turns, purchasers and sellers of debt are turning to analytical tools to gain a strategic advantage.

Analytical valuation methods developed originally for performing portfolios are being used to reduce price volatility and fully understand the asset value, giving funders greater confidence in the return on their investment.

For an in-depth view of these analytical advances from a purchaser's view, please see the [full article here...](#)

In a future edition of Euristix Insight we will be looking at the changes affecting the debt market from the seller's side.

Questions Corner - Collections Processes

Consider how your business measures up to the following questions:

- Is the collections function within your business viewed as an operational process or as an area of value generation?
- Has the analytics within the collections function received the same investment as analytics within other areas of the customer lifecycle, e.g. customer acquisition?
- How accurately could you put a value on your non-performing book?
- What proportion of the total available value of your debt are you extracting prior to sale or write-off?

The next edition of Euristix Insight will provide more information on ways to use analytics to drive value from collections activity, but in the meantime, please direct any questions to chris.kemp@euristix.com

Achieving Best Practice - Portfolio Stress-Testing

Problem - For day-to-day portfolio management, as well as for both Basel II compliance and due diligence during a portfolio purchase, it is necessary to forecast how a given collection of assets will behave under an economic downturn situation. This is known as stress-testing.

Approaches - Various approaches have been used within the industry to project variations in macro-economic factors onto portfolio performance

measures such as PD and LGD, determining how these change in an economic downturn.

Best of Breed - Portfolio metrics are stressed by applying shocks to the drivers of portfolio performance, rather than the symptoms.

Changes in PD and LGD are the symptoms observed in economic downturn scenarios, but these changes are driven by shifts in the underlying drivers of risk, encapsulated within model characteristics. Portfolio performance should be stressed by applying



shocks directly to these underlying factors. The extent of the shocks is determined by analysing correlations between these factors and the relevant macro-economic indicators. These variations can then be used to calculate adjusted versions of PD & LGD, resulting in robust and accurate stress-testing predictions.

A future edition of Euristix Insight will include a full insight into stress-testing in this way and the benefits that can be gained. In the meantime, please direct any questions to vincent.bordes@euristix.com

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